

New Michigan Business Tax

Representative Steve Bieda
April 26, 2007

Overview of Presentation

- Principles
- Process
- Details of the Plan
- Taxpayer Examples

Principles

- Encourage and reward businesses that invest in Michigan
 - Provide \$700 million in new credits to jump-start Michigan's struggling economy. Provide credits for businesses that:
 - Invest in Michigan
 - Provide jobs in Michigan
 - Invest in research and development in Michigan
 - Apportionment and sourcing changes reward in-state businesses

Principles

- Provide maximum personal property tax relief without hurting schools and local services
 - Exempt commercial and industrial personal property from 24 mills of school taxes
 - Provide an extra 50% credit for industrial personal property taxes paid
 - Eliminates approximately 73% of personal property taxes for manufacturers
 - Eliminates approximately 46% of personal property taxes for commercial businesses

Principles

- Protect education, healthcare, public safety, and other vital services
 - Plan includes over \$700 million in credits for businesses that invest in Michigan but maintains overall revenue neutrality
 - Personal property tax relief is designed in a way that protects schools and local services

Principles

- Draw the best elements from other tax proposals and other states
 - Business income tax reflects ability to pay
 - 46 other states have a tax on income
 - Net worth tax provides a stable base
 - About half of states tax net worth tax or something similar
 - Provide significant personal property tax relief
 - Provide relief for small businesses
 - Provide incentives for in-state investment

Principles

- Encourage "New Economy" jobs
 - Provide credit for 4% of businesses' research and development expenditures
 - Nearly \$300 million in relief targeted at small businesses
 - New MEGA credit for businesses that invest in R&D start-ups
 - Retains start-up credit, Next Energy credit, and other economic development incentives from SBT

Principles

- Promote fairness, equity, and simplicity
 - Simple tax structure with which businesses are familiar
 - Rebate trigger provides additional effective tax rate relief and predictability for the business community
 - Mandatory unitary filing closes tax loopholes that result in out-of-state tax shifting

Process

- Sought extensive consultation with tax experts and members of the business community
- Drew from the best elements of other tax proposals
- Consensus-building process

Details of the Plan

- 6.95% business income tax
- 0.488% net worth tax
 - Lower 0.318% rate for the financial / insurance/ real estate sector
- \$700 million in new credits
 - 4.0% of R&D expenditures
 - 0.8% of compensation
 - 3.3% investment tax credit
- 1.25% premiums tax on insurers, retaining credits

Details of the Plan

- Take the first step to eliminate the personal property tax
 - Exempt industrial and commercial personal property from the 18 mill local school operating millage and the 6 mill State Education Tax
 - Protects schools by reimbursing the School Aid Fund with a revenue earmark
 - 50% credit for industrial personal property taxes paid
 - Protects local governments' ability to provide police, fire, and other important services

Details of the Plan

- Nearly \$300 million in small business tax relief
 - Retain \$350,000 gross receipts threshold
 - No minimum tax
 - Eliminate "cliff effect" by providing a phase-in between \$350,000 and \$700,000 in gross receipts
 - Small businesses with under \$10 million in gross receipts can opt to pay an alternative tax of 1.8% on adjusted business income

Details of the Plan

- New MEGA credit for businesses that invest in start-up R&D companies
- Retains existing economic development incentives in SBT
 - MEGA, Brownfields, Renaissance Zones, Historic Preservation, etc.

Details of the Plan

- Mandatory unitary filing
 - Requires integrated businesses under common ownership or control to file as a group
 - States are moving toward unitary filing to close tax loopholes
- Single sales factor apportionment and "market-based" sourcing
 - Avoids punishing businesses that invest and create jobs in the state

Details of the Plan

- Rebate trigger
 - If revenues come in 10% or more than budgeted, the difference is rebated pro rata to taxpayers
 - Provides certainty that the business tax burden will remain stable

Details of the Plan

- 80% or 126,000 businesses are estimated to see a reduction or no change in their tax liabilities
- 20% or 32,000 businesses are estimated to see an increase
- Best winners/losers ratio of any plan
- Keeps our business tax burden below the national average
- Makes our tax structure more responsive to the changing economy

Taxpayer example: Service firm

Effective tax rate after credits = 2.54%
 (\$20M income / \$100M net worth on \$35M earnings with 60% Michigan sales)

Tax Calculation

Total tax before new credits:	\$1,126,800
- Compensation credit	168,000
- Investment credit	41,500
- Research credit	28,000
Tax after credits	\$889,300

Investment in Michigan

Jobs = \$21 million
 Property = \$1.26 million
 Research expenditures = \$700 k

Taxpayer example: Manufacturer

Effective tax rate after credits = 3.84%
 (\$20M income / \$500M net worth on \$35M earnings with 60% Michigan sales)

Tax Calculation

Total tax before new credits:	\$2,298,000
- Compensation credit	414,000
- Investment credit	306,000
- Research credit	235,000
Tax after credits	\$1,343,000

Investment in Michigan

Jobs = \$52 million
 Property = \$9.3 million
 Research expenditures = \$5.9 million

Taxpayer example: Retailer

Effective tax rate after credits = 2.85%
(\$20M income / \$240M net worth on \$35M earnings with 60% Michigan sales)

Tax Calculation

Total tax before new credits: \$1,536,720
- Compensation credit 300,000
- Investment credit 218,000
- Research credit 20,000
Tax after credits \$998,720

Investment in Michigan

Jobs = \$37.5 million
Property = \$6.6 million
Research expenditures = \$500 k

Taxpayer example: Small Services Firm

Effective tax rate after credits = 0.56%
(\$300k modified income on \$350k earnings with \$350k Michigan sales = 100% of total sales)

Tax Calculation

Tax on income at small business alternative rate of 1.8%: \$5,400
- Phase-in "diff" credit 2,300
- Other credits 1,100
Tax after credits \$2,000

Moving Michigan Forward

- Comprehensive reform addresses both the SBT replacement and the personal property tax
- Encourage economic development by rewarding businesses that invest in Michigan
- Reflect the changing economy and encourage the growth of small and knowledge-based businesses
- Protect education, healthcare, public safety, and other vital services while providing a fair and equitable tax system